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TAGS: EAID, EFIN, ADB, ID

SUBJECT: PROPOSED ADB LOAN AND TECHNICAL ASSISTANCE

- GRANT FOR BALI IRRIGATION PROJECT (INDONESIA)

SUMMARY: ADB MANAGEMENT IS PROPOSING AN \$18.0 MILLION
ORDINARY CAPITAL LOAN AND A \$150,000 TECHNICAL ASSISTANCE
(TA) GRANT FOR THE BALI IRRIGATION PROJECT (INDONESIA).
PROPOSED PROJECT CLEARLY DEMONSTRATES ADB COMMITMENT TO
HELPING THE POOR THROUGH APPLICATION OF APPROPRIATE
TECHNOLOGY. THE PURPOSE OF THE PROPOSED BANK LOAN IS TO
FINANCE AN INTEGRATED RURAL DEVELOPMENT PROJECT AIMED
PRINCIPALLY AT THE IMPROVEMENT OF IRRIGATION, AGRICULTURAL
PRODUCTION AND THE PROVISION OF SOCIAL SERVICES FOR THE
RURAL POOR THROUGH THE APPLICATION OF APPROPRIATE TECH-
NOLOGIES IN THE DENSELY POPULATED ISLAND OF BALI. THE
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METHODOLOGY USED IN DESIGNING THIS PROJECT CORRESPONDS
TO THE RECOMMENDATIONS IN THE SECOND ASIAN AGRICULTURAL
SURVEY WHICH IDENTIFIED THE PRESSING NEEDS FOR ACCEL-
ERATED AGRICULTURAL DEVELOPMENT AND BROAD-BASED PROGRAMS
TO REDUCE RURAL POVERTY AND DEVELOP RURAL INSTITUTIONS.
APPROXIMATELY 13,400 SMALL FARM HOUSEHOLDS WILL BENEFIT
IN TERMS OF INCREASED INCREMENTAL FARM INCOME AND EMPLOY-

MENT. SIMILARLY, SINCE THE PROJECT WILL BE IMPLEMENTED UTILIZING LABOR INTENSIVE CONSTRUCTION TECHNIQUES, AN ADDITIONAL 3.5 MILLION MAN-DAYS OF EMPLOYMENT WILL BE GENERATED FROM CONSTRUCTION OVER A FOUR-YEAR PERIOD. BESIDES THE EMPLOYMENT BENEFITS, ABOUT 7.6 PERCENT AND 6 PERCENT RESPECTIVELY OF BALI'S PRESENT POPULATION WILL WILL BENEFIT FROM THE IMPROVED WATER SUPPLY FACILITIES AND ACCESS ROADS BEING PROVIDED UNDER THE PROJECT. BECAUSE OF THE NATURE OF THE PROPOSED PROJECT AND THE ATTEMPT TO MINIMIZE THE USE OF LARGE CAPITAL EQUIPMENT, THE ADB IS PROPOSING THAT \$8.20 MILLION (46 PERCENT) OF THE LOAN BE USED TO COVER LOCAL COSTS. WHILE USADB IS NORMALLY SKEPTICAL OF LARGE LOCAL CURRENCY COST FINANCING, WE BELIEVE THAT INDONESIA'S TIGHTENING EXTERNAL FINANCIAL POSITION AND THE INNOVATIVE DESIGN OF THE PROJECT JUSTIFY ADB'S PROPOSAL. MOREOVER, THE BENEFICIARIES AND THE TECHNOLOGY USED UNDER THE PROPOSED PROJECT ARE OF A KIND DESIRED BY THE USG. THE PROJECT HAS AN ESTIMATED EIRR OF 26 PERCENT WHICH DEMONSTRATES THAT GROWTH AND EQUITY (EMPLOYMENT GENERATION) CAN BE ACHIEVED SIMULTANEOUSLY. USADB RECOMMENDS FAVORABLE NAC ACTION. END SUMMARY.

1. ADB DOC. R81-78 POUCHED ADDRESSEES AUGUST 21. PROPOSED LOAN AND TA SCHEDULED FOR BOARD CONSIDERATION SEPTEMBER 7.

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2. THE PROPOSED FINANCIAL ASSISTANCE WOULD INCLUDE A LOAN AMOUNT OF \$18.00 MILLION EQUIVALENT FROM THE BANK'S ORDINARY CAPITAL RESOURCES AND A TECHNICAL ASSISTANCE GRANT OF \$150,000 TO BE ALLOCATED TOWARDS THE COST OF STUDIES UNDER THE PROPOSED LOAN. THE LOAN AMOUNT INCLUDES: (I) THE FOREIGN EXCHANGE COST OF THE PROJECT, NET OF THE TA GRANT, AMOUNTING TO \$8.20 MILLION TO BE ALLOCATED FOR CIVIL WORKS AND CONSULTANCY SERVICES. IT IS PROPOSED THE REPAYMENT PERIOD OF THE LOAN BE 27 YEARS INCLUDING A GRACE PERIOD OF 7 YEARS AT AN INTEREST RATE OF 7.7 PERCENT PER ANNUM. THE BORROWER WOULD BE INDONESIA. FOR INFORMATION ON EXECUTING AGENCIES SEE PARAS 12 THROUGH 16.

3. AS A RESULT OF INHERENT LIMITATIONS IN BALI'S TRADITIONAL IRRIGATION TECHNOLOGY, THE PROVINCE HAS BECOME A FOOD DEFICIT REGION AND MALNUTRITION IS PREVALENT. GROUND WATER DEVELOPMENT IS LIMITED. WATERSHEDS AND CATCHMENT AREUX HAVE BEEN PROGRESSIVELY STRIPPED OF GROUND COVER WHICH HAS LED TO SERIOUS EROSION ON STEEPER SLOPES, HEAVY SILTATION IN DOWNSTREAM AREAS AND AN INCREASING INCIDENCE OF FLASH FLOODS. GASTROENTERITIS, CHOLERA, AND TYPHUS ARE ENDEMIC, RESULTING MAINLY FROM BACTERIO-

LOGICAL POLLUTION OF DRINKING-WATER SUPPLIES. IN THIS
CONTEXT, A COMPREHENSIVE DEVELOPMENT PACKAGE, AIMED AT
RELIEVING THE CONSTRAINTS ON AGRICULTURAL PRODUCTION,
EMPLOYMENT, AND HEALTH HAS BEEN GIVEN PRIORITY IN THE
GOVERNMENT'S EFFORT TO DEVELOP BALI'S ECONOMY.

4. THE PROPOSED IRRIGATION SERVICE AREAS ARE DOMINATED BY
SMALL FARMS (90 PERCENT OF HOLDINGS ARE LESS THAN 2
HECTARES; AVERAGE FARM SIZE IS 0.87 HA.) ABOUT 69 PERCENT
OF THE FARM OPERATORS ARE OWNER-CULTIVATORS, 23 PERCENT
ARE PART-OWNERS AND ONLY 8 PERCENT ARE PURE TENANTS OR
LESSEES. A TENANT'S SHARE OF THE PRODUCE VARIES WIDELY
(FROM ONE-FIFTH TO ONE-HALF) ACCORDING TO THE PROPORTION

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OF FARM COSTS SHOULDERED BY THE LANDOWNER. TENANT OPERA-
TORS ALSO ARE MEMBERS OF SUBAK ASSOCIATIONS (INDIGENOUS
COOPERATIVE IRRIGATION SOCIETIES) IN IRRIGATED AREAS.
TENANCY ARRANGEMENTS ARE GENERALLY SATISFACTORY AND DO NOT
POSE PARTICULAR PROBLEMS.

5. EXISTING SMALL-SCALE MANUFACTURING, HANDICRAFT AND
COTTAGE INDUSTRIES (SMALL INDUSTRIES) ARE QUITE LABOR
INTENSIVE AND ARE LOCATED MOSTLY IN RURAL AREAS. THESE

PRIMARILY SERVE LOCAL MARKETS, EXCEPT FOR SOME TOURIST-ORIENTED HANDICRAFTS. THE GOVERNMENT INTENDS TO ENCOURAGE THE DEVELOPMENT OF SMALL INDUSTRIES IN BALI THROUGH THE ESTABLISHMENT OF LIGHT TECHNOLOGY RESEARCH AND DEVELOPMENT CENTERS, PROVISION OF FORMAL EXTENSION AND TRAINING SERVICES FOR SMALL ENTREPRENEURS, PROVISION OF WORKING CAPITAL AND SMALL INVESTMENT CREDITS THROUGH STATE-OWNED LIMITED OFFICIAL USE

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BANKS, AND RURAL ELECTRIFICATION. LIMITED OFF-FARM EMPLOYMENT IS ALSO PROVIDED THROUGH VARIOUS RURAL WORKS PROGRAMS.

6. PROTEIN-CALORIE MALNUTRITION, SERIOUS VITAMIN DEFICIENCY, ENDEMIC CRETINISM AND GOITER, AND NUTRITIONAL ANEMIA ARE BALI'S MOST SERIOUS NUTRITIONAL DEFICIENCY PROBLEMS. THE IMPACTS ARE PARTICULARLY SEVERE FOR INFANTS AND CHILDREN UNDER FIVE, AND FOR PREGNANT AND LACTATING WOMEN. BALI'S NUTRITIONAL PROBLEMS ARE DUE BOTH TO POVERTY (A FOOD QUANTITY PROBLEM) AND THE NEED FOR FAMILY EDUCATION ON BETTER FOOD INTAKE PATTERNS. HOWEVER, THE LONG-TERM SOLUTION FOR MOST BALINESE DEPENDS UPON INCREASING AGRICULTURAL PRODUCTION (FOOD AVAILABILITY) AND HOUSEHOLD INCOME (FOOD PURCHASING POWER). THE PROJECT IS DESIGNED TO AUGMENT BOTH.

7. THE INCIDENCE OF COMMON WATER-BORNE DISEASES IN BALI (AND IN INDONESIA AS A WHOLE) IS AMONG THE HIGHEST IN THE WORLD. GASTRO-ENTERITIS HAS INCREASED FROM ONE PERCENT (22,291 CASES) OF TOTAL POPULATION IN 1975 TO 2 PERCENT (51,278 CASES) IN 1977, WHICH IS CONSIDERED TO BE A PHENOMENAL INCREASE OVER A THREE-YEAR PERIOD. CHOLERA INCIDENCE HAS INCREASED FROM 1,467 SUSPECTED CASES TO 6,869, I.E. BY 400 PERCENT BETWEEN 1971 TO 1977. THESE INDICATORS REFLECT, AMONG OTHERS, THE UNAVAILABILITY OF PROTECTED (SAFE) WATER SUPPLIES. BALI HAS, HOWEVER, A FAVORABLE HIGH HEALTH CLINIC DENSITY PER 1000 POPULATION RELATIVE TO THE OTHER MAIN INDONESIAN PROVINCES ALTHOUGH STAFF ARE LIMITED IN NUMBER AND TRAINING. THESE ARE PRESENTLY BEING AUGMENTED UNDER GOVERNMENT RURAL HEALTH PROGRAMS.

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8. THE PROJECT'S MAJOR OBJECTIVE IS THE REDUCTION OF RURAL POVERTY IN BALI THROUGH THE APPLICATION OF APPROP-

RIATE TECHNOLOGIES IN A NUMBER OF INTERLINKED DEVELOPMENT ACTIVITIES. THIS WOULD BE ACCOMPLISHED BY INTENSIFIED AGRICULTURAL PRODUCTION THROUGH THE IMPROVEMENT OR EXPANSION OF 16 SMALL IRRIGATION SCHEMES SERVING A TOTAL OF 11,630 HA., WATERSHED REHABILITATION AND EROSION CONTROL MEASURES THROUGH SOIL CONSERVATION TRAINING AND DEMONSTRATION AND COCONUT STEMWOOD UTILIZATION SCHEMES, THE CONSTRUCTION OF 150 KM. OF ACCESS AND RURAL ROADS, AND THE DELIVERY OF IMPROVED SOCIAL SERVICES IN RURAL BALI THROUGH PROVISION OF PROTECTED DRINKING WATER SUPPLIES IN ABOUT 83 VILLAGES AND THREE MARKET TOWNS.

9. FEASIBILITY STUDIES ARE INCLUDED IN THE PROJECT FOR FURTHER IRRIGATION AND AGRICULTURAL DEVELOPMENT ON AN ADDITIONAL 24,600 HA., LAND RECLAMATION AND RIVER CONTROL, THE PROVISION OF 400 KM. OF RURAL ROADS, PROTECTED WATER SUPPLIES AND THE DEVELOPMENT OF INSTITUTIONS TO PROVIDE TECHNICAL SUPPORT FOR SMALL MANUFACTURING INDUSTRIES.

10. THE PROJECT WILL BE INTENSELY LABOR-USING, HAVING BEEN DESIGNED TO PROVIDE A MAXIMUM NUMBER OF PRODUCTIVE EMPLOYMENT OPPORTUNITIES POSSIBLE FOR BALI'S LARGE AND GROWING LANDLESS LABOR FORCE. THIS WILL BE ACCOMPLISHED THROUGH THE USE OF LABOR INTENSIVE CONSTRUCTION TECHNIQUES ON MOST OF THE CIVIL WORKS, AND - DURING THE OPERATIONAL STAGE - BY PROMOTING DEVELOPMENT IN RURAL PRODUCTION ACTIVITIES AND INFRASTRUCTURAL DEVELOPMENT WHERE THE POTENTIAL FOR ADDITIONAL ON-FARM AND OFF-FARM EMPLOYMENT IS HIGH. THESE ACTIVITIES INCLUDE IRRIGATED FOODCROPS AGRICULTURE, RURAL ROADS, SOIL CONSERVATION AND RE-GREENING, AND (LATER) IN SMALL RURAL-BASED MANUFACTURING INDUSTRIES. BY FOCUSING ON IRRIGATED AREAS UNDER THE MANAGEMENT OF SUBAKS, BALI'S TRADITIONAL COOPERATIVE WATER-USER ASSOCIATIONS, AND INVOLVING THE SUBAKS IN THE LIMITED OFFICIAL USE

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PLANNING, OPERATION AND MAINTENANCE OF IRRIGATION WORKS TO BE IMPLEMENTED, THE PROJECT ALSO WILL PROMOTE ACTIVE LOCAL PARTICIPATION IN COOPERATIVE ENDEAVOR. THESE FEATURES ARE IN LINE WITH THE RECOMMENDATIONS OF THE SECOND

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ASIAN AGRICULTURAL SURVEY. THEY ARE ALSO IN LINE WITH
THE MAIN THRUST OF DEVELOPMENT WHICH INDONESIA INTENDS TO
ADOPT DURING ITS FORTHCOMING THIRD FIVE-YEAR PLAN.

11. THE VARIOUS PROJECT ACTIVITIES WILL BE CARRIED OUT
SECTORALLY: THE DIRECTORATE-GENERAL OF WATER RESOURCES
DEVELOPMENT (DGWRD) WHICH WOULD BE RESPONSIBLE FOR IRRI-
GATION WORKS, ACCESS AND RURAL ROADS AND RELATED STUDIES;
THE DIRECTORATE-GENERAL OF FORESTRY (DGF) FOR THE SOIL
CONSERVATION PILOT SCHEME; THE DIRECTORATE-GENERAL OF
MISCELLANEOUS INDUSTRIES AND HANDICRAFTS (DGMIH) FOR THE
STEMWOOD UTILIZATION SCHEME; THE DIRECTORATE-GENERAL OF
COMMUNICABLE DISEASE CONTROL (DGCDG), THROUGH ITS
DIRECTORATE OF HYGIENE AND SANITATION, FOR THE RURAL
WATER SUPPLIES AND RELATED STUDY; THE DIRECTORATE-GENERAL
OF HOUSING AND URBAN DEVELOPMENT (DGCK), THROUGH ITS
DIRECTORATE OF SANITARY ENGINEERING, FOR MARKET TOWN
WATER SUPPLIES; AND THE MINISTRY OF INDUSTRY, THROUGH ITS
BIPIK DIRECTORATE, FOR THE SMALL INDUSTRIES STUDY.

12. DGWRD WILL ACT AS GENERAL COORDINATING AGENCY FOR
THE PROJECT. IT IS THE GOVERNMENT AGENCY RESPONSIBLE
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FOR OVERALL PLANNING, PROGRAMMING AND EXECUTING OF
IRRIGATION, FLOOD CONTROL AND OTHER RIVER IMPROVEMENT
WORKS. DGWRD HAS EXECUTED PROJECTS FINANCED FROM BOTH
DOMESTIC AS WELL AS OFFICIAL FOREIGN SOURCES AND IT IS
THE EXECUTING AGENCY FOR SEVEN LOANS FROM THE BANK. IN
FOUR OF THESE, IT HAS ACTED AS PRINCIPAL EXECUTING AGENCY.

13. DGF IS RESPONSIBLE FOR SOIL CONSERVATION IN
INDONESIA'S WATERSHED AND CATCHMENT AREAS. THE DIRECTOR-

ATE OF REFORESTATION AND LAND REHABILITATION, WITHIN DGF, CONCURRENTLY IS RESPONSIBLE FOR THE PLANNING AND MANAGEMENT OF INDONESIA'S REFORESTATION AND GREENING (INPRES) PROGRAM AND COORDINATES THE PLANNING OF DGF'S SOIL CONSERVATION MEASURES WITH INPRES ACTIVITIES. DGF HAS HAD PRIOR EXPERIENCE WITH AID FINANCED SOIL CONSERVATION SCHEMES.

14. THE MINISTRY OF INDUSTRY (MOI) HAS PRIMARY RESPONSIBILITY FOR PROVIDING NON-FINANCIAL TECHNICAL ASSISTANCE TO MANUFACTURING INDUSTRIES IN INDONESIA. THE PROGRAMS ARE ADMINISTERED BY FOUR DIRECTORATES-GENERAL, INCLUDING DGMIH (WHICH HAS ADMINISTRATIVE RESPONSIBILITY FOR SMALL-SCALE, COTTAGE AND HANDICRAFT INDUSTRIES) WHOSE RESPONSIBILITIES ARE DIVIDED ALONG SUB-SECTORAL LINES, AND 27 REGIONAL OFFICES AT THE PROVINCIAL LEVEL. PLANNING AND COORDINATION OF TECHNICAL AND INDUSTRIAL EXTENSION PROGRAMS FOR SMALL-SCALE MANUFACTURING, COTTAGE AND HANDICRAFT INDUSTRIES IS DONE BY BIPIK.

15. DGCDC IS RESPONSIBLE FOR PLANNING, PREPARATION OF DESIGN STANDARDS AND COORDINATION OF VILLAGE WATER SUPPLY PROJECTS BEING IMPLEMENTED UNDER A NATIONWIDE DEVELOPMENT PROGRAM, AS WELL AS COORDINATING THE RURAL HEALTH INPRES LIMITED OFFICIAL USE

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PROGRAM AT THE NATIONAL LEVEL. DGCDC HAS EXECUTED PROJECTS FINANCED FROM BOTH DOMESTIC AND FOREIGN AID SOURCES AND IS ASSISTING THE IMPLEMENTATION OF RURAL WATER SUPPLY COMPONENTS UNDER THE BANK-FINANCED TELUK LADA AREA DEVELOPMENT PROJECT AND LODOYO IRRIGATION PROJECT.

16. DGCK HAS PRIMARY RESPONSIBILITY FOR URBAN HOUSING AND DEVELOPMENT PROGRAMS AND THE PROVISION OF DRINKING WATER TO URBAN AND PERI-URBAN AREAS. IT HAS RECEIVED CONSIDERABLE FINANCIAL AND TECHNICAL ASSISTANCE FOR ESTABLISHING NATIONAL DESIGN AND COST RECOVERY STANDARDS, PROCEDURES AND TRAINING PROGRAMS FOR ITS STAFF UNDER BOTH BILATERAL AND WORLD BANK-FINANCED PROJECTS, AS WELL AS SERVING AS EXECUTING AGENCY FOR THE BANK-FINANCED BANDUNG WATER SUPPLY AND BANDUNG URBAN DEVELOPMENT PROJECTS.

17. INTER-AGENCY COORDINATION AT THE PROVINCIAL LEVEL WILL BE FACILITATED BY THE ESTABLISHMENT OF AN INTER-DEPARTMENTAL COORDINATING COMMITTEE UNDER THE OFFICE OF THE PROVINCIAL GOVERNOR, WHICH WILL BE HEADED BY THE CHAIRMAN OF THE BALI PROVINCIAL PLANNING AGENCY (BAPPEDA). THE CHIEF OF THE BALI PROVINCE DEPARTMENT OF PUBLIC WORKS WILL SERVE AS VICE CHAIRMAN OF THE COORDINATING COMMITTEE AND WILL BE RESPONSIBLE FOR ITS DAY-TO-DAY ACTIVITIES.

OTHER MEMBERS OF THE COMMITTEE WILL INCLUDE OFFICERS IN CHARGE AT THE PROVINCIAL LEVEL OF THE VARIOUS DEPARTMENTS CONCERNED.

18. THE PROJECT IS LOCATED IN ONE OF THE MOST DENSELY POPULATED AREAS OF INDONESIA AND THE VAST MAJORITY OF THE BENEFICIARIES WOULD BE VERY SMALL FARMERS AND LANDLESS LABORERS. THE SUPPLY OF ASSURED YEAR-ROUND IRRIGATION WATER UNDER THE PROJECT WOULD REDUCE A MAJOR CONSTRAINT ON BETTER AND MORE INTENSIVE AGRICULTURE WHICH SHOULD

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RESULT IN IMPROVED FARM INCOMES AND GREATER ON-AND OFF-FAR EMPLOYMENT. THE PROVISION OF PROTECTED WATER SUPPLY AND THE IMPROVEMENT OF VILLAGE ROADS WOULD CONTRIBUTE TO IMPROVING RURAL LIVING CONDITIONS IN THE PROJECT AREA. THE PROVISION OF SOIL CONSERVATION MEASURES AND ALTERNATIVE SOURCES OF BUILDING MATERIALS AND FUEL WOULD ASSIST WITH THE GOVERNMENT'S WATERSHED REHABILITATION AND EROSION CONTROL PROGRAM. THE PROJECTED ANNUAL INCREASE OF ABOUT 30,000 TONS OF RICE AND 3,900 TONS OF DRY FIELD CROPS AFTER FULL DEVELOPMENT WILL CONTRIBUTE TO THE GOVERNMENT'S OBJECTIVE OF SELF-SUFFICIENCY IN RICE PRODUCTION AND SAVE

A NET FOREIGN EXCHANGE OF ABOUT \$10.8 MILLION A YEAR,
THE CURRENT COST OF FOODGRAIN IMPORTS. THE ECONOMIC
INTERNAL RATE OF RETURN FOR THE PROJECT IS ESTIMATED AT
26.1 PERCENT.

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19. INCREMENTAL EMPLOYMENT ASSOCIATED WITH THE PROJECT
WILL DERIVE FROM TWO MAJOR SOURCES: (I) THE LABOR-
INTENSIVE METHODS PROPOSED FOR CONSTRUCTION AND (II) MORE
INTENSIVE LAND USE ARISING FROM THE YEAR-ROUND SUPPLY OF
ADEQUATE IRRIGATION WATER FOR CROP PRODUCTION. DURING
THE CONSTRUCTION PHASE, IT IS ESTIMATED THAT DEMAND WILL
BE CREATED FOR APPROXIMATELY 3.2 MILLION TOTAL MAN-DAYS
OF UNSKILLED LABOR AND ABOUT 260,000 TOTAL MAN-DAYS OF
SKILLED LABOR. THESE WILL BE DISTRIBUTED OVER A FOUR
YEAR PERIOD. IT IS ESTIMATED THAT 7,500 NEW JOBS WILL
BE CREATED.

20. PROCUREMENT: EACH EXECUTING AGENCY WILL BE RESPON-
SIBLE FOR ITS RESPECTIVE PROCUREMENT OF THE NECESSARY
EQUIPMENT AND GOODS, CONTRACTING FOR CIVIL WORKS AND
MAPPING SERVICES, AND ENGAGEMENT OF CONSULTANTS.

21. ALL UTILITY VEHICLES AND MOTORCYCLES AND THE SERVICES
OF PREQUALIFIED LOCAL MAPPING CONTRACTORS WOULD BE PRO-
CURED THROUGH LOCAL COMPETITIVE BIDDING IN ACCORDANCE
WITH THE DOMESTIC PROCUREMENT POLRPZSPAARL,70 (DCHSBZQVZPZC.&'&.)&(;

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AOSIDERS THIS JUSTIFIED IN THE INTEREST OF RAPID IMPL-
MENTATION OF THE PROJECT, THE SMALL TOTAL COST (APPROXI-
MATELY \$261,000) AND THE LARGE NUMBER OF COMPETITIVE
VEHICLE ASSEMBLY ENTERPRISES IN INDONESIA.

22. LOCAL MAPPING CONTRACTORS WILL PROVIDE AERIAL MAPPING
AND TOPOGRAPHIC SURVEYS AND PHOTOGRAMMETRY FOR IRRIGATION,
ROADS AND THE SOIL CONSERVATION PILOT SCHEME. ADB STAFF
BELIEVE THIS WILL BE AN ECONOMIC AND EFFICIENT MEANS OF
ENSURING ADEQUATE MAPPING IS AVAILABLE FOR THE PROJECT
DESIGN AND IMPLEMENTATION AND IS CONSIDERED JUSTIFIED IN
VIEW OF THE SMALL AMOUNT OF FINANCE REQUIRED (APPROXI-
MATELY \$307,000), EXISTING SECURITY RESTRICTIONS ON
FOREIGN MAPPING CONTRACTORS AND THE READY AVAILABILITY
OF EXPERIENCED LOCAL CONTRACTORS, WHO WILL OPERATE UNDER
EXPATRIATE SUPERVISION.

23. ALL CIVIL WORKS CONTRACTS FOR THE IRRIGATION, ROADS
AND WATER SUPPLIES COMPONENTS OF THE PROJECT WILL BE
AWARDED TO PRE-QUALIFIED LOCAL CONTRACTORS. THE SMALL
RELATIVELY SIMPLE TYPE OF PROJECT WORKS REQUIRED AND THEIR
SCATTERED LOCATIONS ARE UNLIKELY TO ATTRACT INTERNATIONAL
CONTRACTORS. ADB STAFF ARE SATISFIED THAT LOCAL CON-
TRACTORS ARE AVAILABLE WHO HAVE DEMONSTRATED A CAPABILITY
OF CARRYING OUT THE REQUIRED WORKS EFFICIENTLY AND AT
REASONABLE COST. THE ADB ALSO IS SATISFIED WITH PREQUALI-
FICATION PROCEDURES OF DGWRD, DGF, DGCDC AND DGCK.

24. AN ESTIMATED 275 MAN-MONTHS OF EXPATRIATE CONSULTING
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SERVICES WILL BE REQUIRED FOR THE PROJECT, INCLUDING 154
MAN-MONTHS FOR DESIGN AND CONSTRUCTION AND 121 MAN-MONTHS
FOR FUTURE PROJECT STUDIES. ALL CONSULTANTS WILL BE
SELECTED IN ACCORDANCE WITH THE BANK'S GUIDELINES ON USES
OF CONSULTANTS. IN THE INTERESTS OF ECONOMY, DGWRD WILL
ENGAGE A SINGLE CONSULTING FIRM FOR THE IRRIGATION AND
RURAL ROADS SCHEMES AND STUDIES, WHILE INDIVIDUAL CON-
SULTANTS WILL BE ENGAGED BY THE DGF, DGCDC AND MOI IN
VIEW OF THE RELATIVELY LIMITED SERVICES AND DIVERSE
SPECIALTIES REQUIRED. THE SHORT LIST IS CURRENTLY BEING
PREPARED.

25. THE FOLLOWING INFORMATION MAY BE USEFUL TO AMERICAN
FIRMS: CONTRACTS FOR THE SUPPLY OF EQUIPMENT AND GOODS
WILL BE TENDERED AND AWARDED IN ACCORDANCE WITH THE BANK'S
GUIDELINES FOR PROCUREMENT. CONTRACTS ESTIMATED TO COST
\$100,000 OR MORE WILL BE AWARDED ON THE BASIS OF INTER-

NATIONAL COMPETITIVE BIDDING PROCEDURES AND THOSE
ESTIMATED TO COST LESS THAN \$100,000 ON THE BASIS OF

NOTE BY OC/T: MANILA 15201/4. #PARA 21 AS RECEIVED.
CORRECTION TO FOLLOW.

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INTERNATIONAL SHOPPING PROCEDURES. DRAFT TENDER DOCUMENTS
AND SPECIFICATIONS FOR CONSTRUCTION EQUIPMENT WILL BE
PREPARED BY THE DGWRD, WITH ASSISTANCE BY THE CONSULTANTS
AND FURNISHED TO THE BANK FOR APPROVAL PRIOR TO ISSUANCE.
IT IS ESTIMATED THAT APPROXIMATELY \$1.5 MILLION OF
FOREIGN EXCHANGE WILL BE USED TO FINANCE DIRECT IMPORTS,
PRIMARILY FOR MACHINERY AND EQUIPMENT (INCLUDING PIPES
AND PUMPS).

26. USADB COMMENT: THE PROPOSED LOAN IS POSSIBLY THE
MOST ADVANCED PROJECT DESIGNED BY THE ADB TO INCREASE
OUTPUT BY USING LABOR INTENSIVE TECHNIQUES. THIS IS ALSO
THE FIRST LOAN TO SPECIFICALLY INCORPORATE SOME OF THE
RECOMMENDATIONS OF THE SECOND ASIAN AGRICULTURAL SURVEY
INTO PROJECT DESIGN. IN ADDITION TO PROVIDING INCREASED
INCOME TO FARMERS, THE LOAN PROVIDES FOR SAFE WATER
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SUPPLY, ACCESS ROADS, A DEMONSTRATION PLOT, AND INCREASED USES OF INDIGENOUS FUEL SOURCES IN THE PROJECT AREA. THIS PROJECT DEMONSTRATES THAT ECONOMIC GROWTH AND A REDUCTION OF POVERTY (PROJECT HAS AN ESTIMATED EIRR OF 26 PERCENT), THROUGH EMPLOYMENT GENERATION, CAN BE ACHIEVED SIMULTANEOUSLY. THE ONLY DETAIL THAT APPEARS TO BE LACKING IN THE PROPOSED LOAN IS PROVISION FOR BASELINE DATA COLLECTION AND ANALYSIS. WE BELIEVE THAT A BASELINE SURVEY WOULD BE PARTICULARLY USEFUL AS IT WOULD PROVIDE THE BASE FROM WHICH TO MEASURE THE ECONOMIC BENEFITS OF USING APPROPRIATE TECHNOLOGY. WE THEREFORE PLAN TO RECOMMEND THAT THE BANK FIND A METHOD OF COLLECTING BASELINE INFORMATION BEFORE PROJECT IMPLEMENTATION IS TOO FAR ALONG. THERE IS, HOWEVER, ANOTHER SIDE TO FINANCING PROJECTS SUCH AS THE ONE BEING PROPOSED. PROJECTS THAT DIRECTLY BENEFIT THE POOR THROUGH JOB CREATION USUALLY REQUIRE MORE LOCAL CURRENCY FINANCING THAN OTHER MORE CAPITAL INTENSIVE PROJECTS. CONSEQUENTLY, THE ADB IS PROPOSING THAT \$8.2 MILLION OF THE LOAN BE USED TO COVER LOCAL COSTS. IN ADDITION ONLY ABOUT \$3.0 MILLION OF THE \$9.8 MILLION IN FOREIGN EXCHANGE WILL BE USED FOR DIRECT PURCHASES. (ABOUT \$1.5 MILLION FOR MACHINERY AND EQUIPMENT AND \$1.5 MILLION FOR EXPATRIATE CONSULTING SERVICES.) MOST OF THE FOREIGN EXCHANGE (\$6.8 MILLION) WILL BE USED PRIMARILY FOR INDIRECT FOREIGN EXCHANGE COSTS. THE LARGE LOCAL COST FINANCING COMPONENT, THE SMALL AMOUNT OF DIRECT IMPORTS AND THE RELATIVELY SOFT TERMS OF THE LOAN (27 YEARS WITH 7 YEARS GRACE) ARE JUSTIFIED BY THE BANK ON THE GROUNDS THAT: 1) THE LOCAL COST FINANCING COMPONENT CONFORMS TO BANK POLICY WHICH STATES (ADB DOC R65-74), FOR EXAMPLE, THAT LOCAL COST FINANCING IS ACCEPTABLE WHEN (A) THE PROJECT HAS A LOW FOREIGN EXCHANGE REQUIREMENT; (B) THERE IS HIGH ECONOMIC

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AND SOCIAL BENEFIT; AND (C) LABOR INTENSIVE TECHNIQUES FOR AGRICULTURAL PROJECTS (PARTICULARLY IRRIGATION PROJECTS) ARE EMPLOYED; AND 2) INDONESIA'S LOW PER CAPITA INCOME, ITS TIGHTENING EXTERNAL FINANCIAL POSITION, AND THE SLOW GESTATION PERIOD OF THE PROJECT, REQUIRE RELATIVELY EASY ORDINARY CAPITAL TERMS. IN LIGHT OF THE RECENT USG SUCCESSFUL EFFORT TO PROVIDE INDONESIA WITH ACCESS TO THE CONCESSIONARY WINDOW OF THE BANK, USADB BELIEVES THAT IT IS CONSISTENT WITH AFORESAID APPROACH TO PROVIDE ORDINARY CAPITAL LOANS ON SOFTER TERMS, WHERE THE NEED

HAS BEEN ESTABLISHED. WE THEREFORE RECOMMEND FAVORABLE
NAC ACTION. EDMOND

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: IRRIGATION, TECHNICAL ASSISTANCE GRANTS
Control Number: n/a
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Draft Date: 30 aug 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
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Disposition History: n/a
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Type: TE
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